File

MAHER SHOES LIMITED

ANNUAL REPORT

January 31st, 1970

MAHER SHOES LIMITED

Annual Report for the fiscal year ended January 31, 1970

DIRECTORS

LANE R. CHESTER
JACK B. COUTTS
EARL H. ORSER
GEORGE F. TRAVELLE
DONALD G. WILLMOT
GEORGE M. WILSON
THOMAS P. WILSON

OFFICERS AND MANAGEMENT

LANE R. CHESTER, Chairman of the Board
JACK B. COUTTS, President
THOMAS P. WILSON, Vice-President
GEORGE F. TRAVELLE, Secretary
FRANK R. HARVEY, Treasurer
J. WEMYSS REID, President — Copp the Shoe Man Limited
DONALD E. ROSS, Merchandising Director
LORNE D. PHILLIPS, Sales Manager — Maher Shoe Stores
ROBERT C. WILSON, Sales Manager — Bonita Stores
ECKHARDT J. BAKER, Sales Manager — Leased Departments

AUDITORS

CLARKSON, GORDON & CO., TORONTO, CANADA

SOLICITORS

KILMER, RUMBALL, GORDON, DAVIS AND SMITH, TORONTO, CANADA

HEAD OFFICE

144 FRONT STREET WEST, TORONTO 1, CANADA

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, TORONTO, CANADA

HIGHLIGHTS

	1970	1969	1968	1967
Net Earnings per Common Share	2.55	2.43	1.98	1.78
Cash Flow per Common Share	3.78	3.41	2.75	2.54
Net Earnings	604,173	580,648	490,044	450,577
Dividends Paid				
per Preference Share	.60	.60	.60	.60
per Common Share	.62	.54	.48	.46
Return on Average Invested Capital	24.3%	26.4%	25.0%	25.3%
Federal and Provincial Income Taxes	632,000	688,000	566,000	492,000
Depreciation and Amortization	231,685	185,735	129,538	122,557
Fixed Asset Additions (net)	452,023	295,147	115,768	288,886
Working Capital	1,788,950	1,631,595	1,715,380	1,451,512
Retail Outlets — end of year	160	153	129	130

REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS

Financial

Record sales and earnings were achieved during the fiscal year ended January 31, 1970. Net earnings per common share of $2.55, after providing for preferred dividend requirements, compare with $2.43 for the previous business year. Earnings increased to a new high of $604,173 for the year compared with $580,648 a year ago while sales increased by 6.5% which compares favourably with the published increase of 2.5% for retail shoe stores across Canada.

During 1969, thirteen new retail locations were opened and six smaller uneconomical units were closed resulting in a net increase of seven outlets at year end. The following table summarizes the number of retail units in operation at January 31:

	1970	1969
Maher Stores	106	106
Copp Stores	27	26
Bonita Fashion Salons	17	13
Leased Departments	10	8
	160	153

Initial costs experienced in new unit openings are absorbed into income. Fixtures and tenants improvements to leased premises are amortized over the useful life of the assets involved or are written off over the term of the lease which policy is consistent with that of prior years.

Fashion

In 1969, the demand for fashion merchandise continued to accelerate. This was particularly noticeable in men's footwear. It is evident that we are entering an era of greater specialization in retailing of footwear and related accessories and our retailing base is being broadened to meet this challenge. This will include the opening of men's shoe specialty stores and women's handbag shops. These specialty shops will contribute to the earnings base of the company and will also complement our other retail operations. Our initial openings of the specialty shops will take place in the summer of 1970. Large regional shopping centres are suitable for these stores as such centres are attracting an ever increasing number of fashion-oriented consumers.

Maher and Copp

The Maher and Copp divisions are traditionally comprised of family shoe stores which combine fashion and quality at popular prices. Many of these stores are located in downtown areas in major cities and towns and are an important segment of the retail strength of these divisions. New locations must be carefully selected as it is increasingly evident that expansion in the Maher and Copp divisions will take place in large regional shopping centres. The company's

retail strength is concentrated in the Maher and Copp Stores which produce the largest sales volume and earnings of all the retail divisions.

Bonita

Seventeen Bonita Beautiful Shoe Salons were in operation at the year end. Since then, another Bonita Salon has been opened in the Yorkdale Shopping Centre in Toronto and has gained immediate acceptance. Bonita Salons and Boutiques are leaders in merchandising women's high-styled Canadian fashion creations supplemented by Continental Imports. Although this is a highly competitive market, the division contributed significant gains in sales and earnings.

Leased Departments

The Leased department division increased the scope of its operations during the year with the opening of two new units at Windsor, Ontario and Kitimat, British Columbia. A further Toronto opening in April 1970 increased the total number of units to eleven. This division showed a satisfactory increase per unit in both sales and earnings and the company is anxious to expand these facilities into department store locations where there is a good profit potential.

Staff

The directors wish to take this opportunity of thanking each member of the staff in Maher Shoes Limited and Copp The Shoe Man Limited for their wholehearted support during the year. The achievements of the past year were attained only through the combined efforts and dedication of all staff members.

General

During the year, the company opened its first Maher Shoe Store in the Maritimes at Sunnyside Shopping Centre, Bedford, Nova Scotia, followed by a Bonita Shoe Salon in Scotia Square, Halifax, Nova Scotia. The performance of these units has been most gratifying and it provides a base in the Maritimes from which the company can enlarge its retail operations in that part of Canada.

Although certain recessional signs in the economy are evident at the present time, 1970 should still prove to be a progressive year in the history of the company. Fashion is the key word of the seventies and Maher is oriented to this concept.

On Behalf of the Board of Directors

C. R. Chester J. B. Coutts

Chairman of the Board. President.

Toronto, Canada, April 22, 1970.

AUDITORS' REPORT

To the Shareholders of

MAHER SHOES LIMITED:

We have examined the consolidated balance sheet of Maher Shoes Limited and its wholly-owned subsidiary as at January 31, 1970 and the statements of consolidated earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,

April 1, 1970

CLARKSON, GORDON & CO.,

Chartered Accountants

MAHER SH(

and its wholly-

CONSOLIDATED

JANUA[

ASSETS

	1970	1969
Current:		
Cash	$ 13,777	$ 31,701
Accounts receivable	246,547	206,812
Inventories, valued at the lower of cost or net realizable value	3,148,750	2,754,064
Prepaid expenses	41,332	53,591
	3,450,406	3,046,168
Fixed:		
Buildings (note 2)	672,240	610,854
Fixtures and equipment, at cost	1,537,787	1,404,405
	2,210,027	2,015,259
Less accumulated depreciation	1,050,880	940,473
	1,159,147	1,074,786
Land (note 2)	614,127	592,500
Improvements to store premises, at cost less accumulated amortization	736,606	618,898
	2,509,880	2,286,184
Other:		
Special refundable tax		30,303
Debenture issue expenses, at cost less amounts written off	32,172	35,747
Excess of cost of investment in a predecessor company over the values assigned to its tangible assets as at date of acquisition (note 2)	1,172,595	1,172,595
	1,204,767	1,238,645
	$7,165,053	$6,570,997

On behalf of the Board:

Lane R. Chester, Director

Jack B. Coutts, Director

See accom

ES LIMITED

wned subsidiary

BALANCE SHEET

Y 31, 1970

LIABILITIES

	1970	1969
Current:		
Bank indebtedness	$ 409,057	$ 334,588
Accounts payable and accrued charges	854,662	689,617
Income and other taxes payable	346,737	342,368
Current portion of long-term debt	51,000	48,000
	1,661,456	1,414,573
Long-term Debt (note 3):		
6¼% sinking fund debentures Series A maturing April 1, 1987	1,650,000	1,700,000
Less instalment due within one year included under current liabilities	51,000	48,000
	1,599,000	1,652,000
Deferred Income Taxes	50,000	36,000
Shareholders' Equity:		
Capital —		
Authorized:		
156,675 60¢ cumulative, non-redeemable preference shares without par value		
400,00 common shares without par value		
Issued:		
156,666 preference shares	1,413,127	1,413,127
200,000 common shares	1,032,816	1,032,816
	2,445,943	2,445,943
Retained earnings	1,408,654	1,022,481
	3,854,597	3,468,424
	$7,165,053	$6,570,997

nying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

YEAR ENDED JANUARY 31, 1970

	1970	1969
Earnings before the undernoted items	$1,638,107	$1,604,624
Deduct:		
Depreciation and amortization	231,685	185,735
Debenture interest	97,127	101,472
Bank and other interest (net)	73,122	48,769
	401,934	335,976
Earnings before income taxes	1,236,173	1,268,648
Income taxes	632,000	688,000
Net earnings for the year	604,173	580,648
Retained earnings, beginning of year	1,022,481	836,526
	1,626,654	1,417,174
Deduct:		
Dividends paid on —		
Preference shares — 60¢ per share	94,000	94,000
Common shares—62¢ per share (54¢ in 1969)	124,000	108,000
	218,000	202,000
Excess of purchase price over underlying value of subsidiary's net assets at date af acquisition		192,693
	218,000	394,693
Retained earnings, end of year	$1,408,654	$1,022,481

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

YEAR ENDED JANUARY 31, 1970

	1970	1969
Funds provided:		
From operations —		
Net earnings for the year	$ 604,173	$ 580,648
Charges (credits) to income not resulting in an outlay (receipt) of funds		
Depreciation and amortization	231,685	185,785
Deferred income taxes	14,000	12,000
Debenture issue expenses	3,575	3,972
Gain on disposal of fixed assets	(3,358)	(5,580)
	850,075	776,775
Disposal of company-owned properties		155,397
Special refundable tax	30,303	
	880,378	932,172
Funds applied:		
Additions and renovations to company-owned properties	101,407	
Fixtures, equipment and improvements (net)	350,616	450,544
Special refundable tax		1,301
Reduction in long-term debt	53,000	50,000
Dividends paid	218,000	202,000
Cost of investment in wholly-owned subsidiary in excess of its working capital at date of acquisition		312,112
	723,023	1,015,957
Increase (decrease) in working capital	157,355	(83,785)
Working capital, beginning of year	1,631,595	1,715,380
Working capital, end of year	$1,788,950	$1,631,595

See accompanying notes

MAHER SHOES LIMITED

and its wholly-owned subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1970

1. The consolidated financial statements include the financial position and operating results of Maher Shoes Limited and its wholly-owned subsidiary, Copp The Shoe Man Limited.

2. The company's land and buildings are valued at depreciated replacement value as determined by Dominion Appraisal Company Limited on March 24, 1965 with subsequent additions at cost. Depreciation charges have been based on the appraised asset values where applicable. The surplus arising from this appraisal in 1965 was applied to reduce the excess of the cost of the investment in the predecessor company over the assigned values of its tangible assets at the date of acquisition.

3. Under the Debenture Trust Indenture payments required to meet sinking fund provisions during the next five years amount to $51,000 in 1971 increasing by approximately $4,000 per annum to $67,000 in 1975.

4. The company is of the opinion that the disclosure of its sales is detrimental to its competitive position in the industry. Accordingly, the company applied to, and received permission from the Supreme Court of Ontario to omit its sales figures from its statement of earnings for the year ended January 31, 1970. The court order was granted on the condition that, at the next annual meeting of shareholders

   ". . . The shareholders of the applicant company by an affirmative vote of three quarters of the votes cast thereat shall have adopted a resolution expressing their consent to the omission of sales or gross operating revenue from the financial statements of the company, and shall approve an auditor's note to the financial statements aforesaid which shall state

whether the trend of sales for the year is up or down from a base period which shall be the previous business year."

The company is pleased to report that the trend of the company's sales for the year ended January 31, 1970 is up from the preceding year.

5. As at December 31, 1969 the company's actuary computed the present value of the company's liability to the employees' pension plan for unfunded past service costs at $569,000 (after deducting $44,000 charged to operations in 1970). The company proposes to fund this balance in equal annual instalments of approximately $42,000 over the next 20 years, and to absorb these costs against operations in the years in which the funding payments are made.

6. The minimum annual rentals, exclusive of taxes and other expenses, for stores, head office and warehousing locations leased by the companies total approximately $550,000 under long term lease agreements extending beyond five years from January 31, 1970 and maturing at various dates to August 5, 1990.

7. Remuneration of directors and senior officers amounted to $184,775 for the year ended January 31, 1970.